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Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 ISO-00 SP-02 USIA-15 AID-05 EB-07 NSC-05

CIEP-02 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04 SIL-01

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R 051907Z AUG 76
FM AMEMBASSY LONDON
TO SECSTATE WASHDC 4299
TREASURY DEPT WASHDC
INFO AMEMBASSY BONN
AMEMBASSY PARIS
AMEMBASSY ROME
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AMCONSUL BELFAST
AMCONSUL EDINBURGH
USMISSION EC BRUSSELS
USMISSION OECD PARIS

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E.O. 11652: N/A
TAGS: EFIN, UK
SUBJECT: GOVERNMENT TIGHTENS LIMITS ON LOCAL A UTHORITY
SPENDING

1. ON AUGUST 4, PETER SHORE, SECRETARY OF STATE FOR THE ENVIRONMENT, ANNOUNCED NEW MEASURES TO BRING LOCAL AUTHORITY SPENDING WITHIN THE LIMITS SET FORTH IN THE LAST GOVERNMENT WHITE PAPER ON EXPENDITURE. IN MAY. IT WAS ANNOUNCED THAT LOCAL AUTHORITY SPENDING FOR FY 76/77 WAS LIKELY TO BE ABOUT 350-450 MILLION POUNDS IN EXCESS OF THE LIMIT SET FORTH IN THE WHITE PAPER. SHORE FLATLY STATED THAT LOCAL AUTHORITY OVERSPENDING THIS YEAR IS NOT TO BE ALLOWED. ANY OVERSPENDING IN THE CURRENT FISCAL YEAR WILL BE REFLECTED IN A REDUCTION OF THE RATE SUPPORT
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GRANT (RSG) NEXT YEAR. WHILE THE INTRODUCTION OF CASH

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SPENDING LIMITS EARLIER IN THE YEAR HAD BEEN WIDELY TOUT-
ED AS A METHOD FOR MAINTAINING CONTROL OVER LOCAL AUTHOR-
ITY SPENDING, THE THREAT OF A REDUCTION OF THE RSG IS
THE FIRST CONCRETE ACTION TAKEN TO ASSURE THAT THE CASH
LIMITS WILL BE OBSERVED.

IN ADDITION TO THE THREAT OF REDUCING THE RSG, SHORE
STATED THAT IT WAS ANTICIPATED THAT AN ADDITIONAL 50 MIL-
LION POUNDS WOULD BE SAVED ON CAPITAL EXPENDITURE PRO-
GRAMS AND ANOTHER 50 MILLION POUNDS WOULD BE SUBTRACTED
FROM THE "INCREASE ORDER" (THE AMOUNT GIVEN EACH YEAR TO
LOCAL AUTHORITIES TO COVER EXTERNALLY INDUCED COST IN-
CREASES).

2. THE 100 MILLION POUND SAVING WOULD STILL MEAN A PRO-
JECTED LOCAL AUTHORITY SPENDING OVERRUN OF 150 MILLION
POUNDS IN THE CURRENT FISCAL YEAR. HOWEVER, THIS WILL BE
RECOUPED BY REDUCING THE RSG NEXT YEAR, RATHER THAN MERE
LY ACCEPTED AND COVERED FROM THE CENTRAL GOVERNMENT'S
CONTINGENCY RESERVES.

3. IT IS REPORTED THAT THE TORIES WERE ANNOYED AT THIS
ACTION SINCE THE MEASURES ARE BEING APPLIED ACROSS THE
BOARD RATHER THAN DIRECTED TOWARD THOSE LOCAL AUTHORITY
COUNCILS WHICH ARE OVERSPENDING BY A DISPROPORTIONATE
AMOUNT. THE LOCAL AUTHORITIES REACTED ANGRILY SINCE IT
WAS FELT THAT THOSE AREAS WHICH WERE FOLLOWING THE GOV.
ERNMENT SPENDING GUIDELINES COULD BE PLACED IN FINANCIAL
DIFFICULTY, PARTICULARLY THOSE WHICH ARE HEAVILY DEPEN-
DENT ON THE RSG. THERE WERE ADDITIONAL EXPRESSIONS OF
ANNOYANCE DIRECTED AT THE REDUCTION IN THE "INCREASE OR-
DER" FOR IT WAS FELT THAT THIS REFLECTS COSTS ENTIRELY
OUTSIDE OF THE LOCAL GOVERNMENT'S CONTROL. THE LOCAL
AUTHORITIES ALSO SAID THAT THE GOVERNMENT IS ACTING IN
HASTE SINCE THEY FELT THAT MUCH OF THE PROJECTED OVER-
SPENDING WOULD BE MET BY SAVINGS ALREADY MADE ON CAPITAL
SCHEMES.

4. COMMENT. HMG'S CONTINUING EFFORTS TO BRING LOCAL
AUTHORITY EXPENDITURE BACK INTO LINE REFLECTS ITS COMMIT-
MENT TO TIGHTENING ITS FISCAL POLICY. AN OVERRUN OF
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ABOUT 1 PERCENT IN OVERALL EXPENDITURE DUE TO LOCAL COUN-
CILS' INABILITY TO ACHIEVE TARGET SPENDING LEVELS WOULD
INCREASE THE PUBLIC SECTOR BORROWING REQUIREMENT BY
ABOUT 3.5 PERCENT. WHILE SUCH AN AMOUNT MAY APPEAR MAR-
GINAL, THE GOVERNMENT'S OVERALL ECONOMIC STRATEGY DEPENDS
HEAVILY ON JUST SUCH CHANGES AT THE MARGIN. THE DISCOM-
FORT FELT BY MANY LOCAL COUNCILS IS INDICATIVE OF THAT
BEING FELT ACROSS THE ECONOMY AS A WHOLE AS RESOURCES ARE

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BEING SHIFTED AWAY FROM CURRENT CONSUMPTION AND INTO IN-
VESTMENT.

ARMSTRONG

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